

Communications
Workers of America
District 3
AFL-CIO

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North Carolina, South Carolina
Tennessee

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July 22, 2002

TN REGULATORY AUTHORITY
DOCKET ROOM

Ms. Sara Kyle, Chairperson
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

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SARA KYLE, COMMISSIONER
TN PUBLIC SERVICE COMM.

Dear Ms. Kyle:

I am writing on behalf of the Communications Workers of America ("CWA") to formally request that this Commission conduct a formal investigation and enforcement action into the accounting fraud committed by WorldCom, Inc. for the purpose of deciding whether WorldCom should be fined and whether the authority of WorldCom and its affiliates to provide telecommunications services in this state should be immediately revoked or suspended.

As the Commission is well aware, there is growing and compelling evidence that WorldCom has committed a massive fraud on the public, harming consumers, workers, and shareholders alike. WorldCom admitted in a sworn statement to the Securities and Exchange Commission ("SEC") that it mischaracterized nearly \$4 billion of expenses as capital expenditures.¹ Because capital expenditures (unlike expenses) can be deducted over a long period of time, these accounting misdeeds enabled WorldCom to inflate dramatically its reported earnings.²

Worse, WorldCom admitted that these costs "previously had been treated as expenses in the Company's financial statements" – thus demonstrating that it well knew

¹ Sworn Statement Pursuant to Section 21(a)(1) of the Securities Exchange Act of 1934, *Re WorldCom, Inc.*, HO-09440 (June 30, 2002) ("*WorldCom Sworn Statement*"), at <http://www.sec.gov/news/wcreponse.htm>; see also WorldCom Press Release, *WorldCom Announces Intention to Restate 2001 and First Quarter 2002 Financial Statements* (June 25, 2002) (admitting that "certain transfers from line cost expenses to capital accounts during this period were not made in accordance with generally accepted accounting principles (GAAP)").

² Christopher Stern, *WorldCom Missteps May Go Back to '99*, Wash. Post, July 2, 2002, at A1.

how to treat them.³ Indeed, a Lehman Brothers accounting expert noted that the proper accounting in this context should be “obvious to anyone who bothers to look at it This is Accounting 101.”⁴ SEC Chairman Harvey Pitt derided WorldCom’s sworn statement, which was sketchy and provided little additional information about the already disclosed accounting problems, as “wholly inadequate and incomplete,” and he concluded that it “demonstrates a lack of commitment to full disclosure to investors and less than full cooperation with the SEC.”⁵

In addition, WorldCom has admitted that more revelations of wrongdoing are likely to come: “In particular, questions have been raised regarding certain material reversals of reserve accounts during 2000 and 1999. No conclusion has been reached regarding these entries.”⁶ These new revelations “could indicate that WorldCom overstated profits by more than \$1 billion in 1999 and 2000.”⁷ In addition, there are press reports that WorldCom may have intentionally overcharged customers and other carriers to inflate its profits.

The WorldCom debacle (like Enron before it) has robbed thousands of workers of their jobs, most state pension funds and millions of investors – including many state employees – of their hard-earned retirement and investment funds. But state authorities are beginning to take appropriate action. The New York state comptroller has sued WorldCom (along with certain officers and directors and its auditor, Arthur Andersen) because the state’s pension fund lost \$300 million from WorldCom’s alleged accounting wrongs.⁸ Texas Attorney General John Cornyn said that WorldCom’s “apparent fraudulent conduct is highly disturbing,” and vowed to use every legal tool at the state’s disposal to “bring to justice all those whose improper or illegal actions have hurt Texas public employees, taxpayers, investors, and honest, hardworking WorldCom employees in Texas.”⁹ Mr. Cornyn has ordered an investigation to identify and pursue claims for money owed to the state and to recover any losses sustained by the state’s pension and investment funds.¹⁰ And the Georgia Technology Authority is currently considering

³ *WorldCom Sworn Statement* ¶ 5.

⁴ *How to Hide \$3.8 Billion in Expenses*, Business Week, June 28, 2002.

⁵ Christopher Stern, *WorldCom’s Missteps May Go Back to ‘99*, Wash. Post, July 2, 2002, at A1 (quoting SEC Chairman Pitt).

⁶ *WorldCom Sworn Statement* ¶ 24.

⁷ Simon Romero & Floyd Norris, *New Bookkeeping Problems Are Disclosed by WorldCom*, N.Y. Times, July 2, 2002, at C1.

⁸ Reuters, *NYS Comptroller McCall Sues WorldCom, Andersen*, July 2, 2002.

⁹ Statement from Attorney General John Cornyn Regarding WorldCom, June 27, 2002, at <http://www.oag.state.tx.us/newspubs/releases/2002/20020627worldcom.htm>.

¹⁰ *Id.*

whether to revoke WorldCom's authority to bid on major state telecommunications contracts based on its apparent financial unfitness.¹¹

At the federal level, the Bush Administration has announced "that the federal government might stop doing business with WorldCom Inc. because of its alleged accounting fraud."¹² The SEC has filed civil fraud charges in a suit claiming WorldCom covered up \$1.22 billion in losses by improperly booking about \$3.9 billion in expenses for five quarters starting in 2001.¹³ The Department of Justice is considering criminal charges,¹⁴ and congressional hearings are in the works.

Strong investors, stable jobs, and vibrant consumers are critical components of a fully competitive telecommunications marketplace. None of those is possible in an atmosphere of lies and deception. The bad apples must be gotten rid of so that the underlying strength of the industry and its workers can show forth more clearly.

This Commission needs to take a stand that the privilege of being certificated as a common carrier and a Commission licensee entails at least some minimum standards of honesty and integrity in order to protect the public interest, as this Commission is charged with doing. WorldCom's actions demonstrate that it does not comply with this Commission's character qualifications and truthfulness requirements and is simply unfit to retain its authority to provide telecommunications services to consumers in this state, and the Commission should move to revoke or suspend it. Since the WorldCom fraud is not some run of the mill inadvertent or unintentional violation of a technical Commission requirement by lower level employees, but a massive willful fraud committed by the highest officers of the company which has caused investors to lose more than \$50 billion and which has caused irreparable harm to the entire telecommunications industry, this Commission should take appropriate and firm action.

As the events detailed above demonstrate, there is a sound basis for this Commission to commence an investigation into the accuracy and truthfulness of WorldCom reports provided to the public, residents of this state, this Commission and other regulatory agencies; whether WorldCom improperly billed or charged customers or carriers in this state; and WorldCom's general fitness or unfitness to continue providing telecommunications services in this state. If a multi-billion dollar willful fraud does not constitute good cause for an investigation and eventual revocation of a public interest

¹¹ Communications Daily, July 2, 2002, at 3.

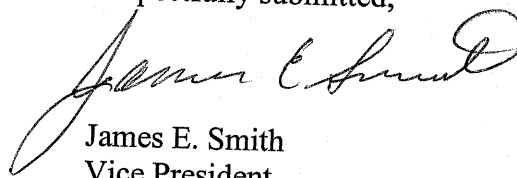
¹² Yuki Noguchi & Anitha Reddy, *WorldCom May Face Federal Work Ban, GSA Says Contractors Need Good Records*, Wash. Post, July 2, 2002, at E1.

¹³ Reuters, *SEC's Pitt Slams WorldCom Explanation*, July 1, 2002.

¹⁴ Christopher Stern, *WorldCom Missteps May Go Back to '99*, Wash. Post, July 2, 2002, at A1.

license, then it is hard to imagine what would. CWA therefore respectfully urges the Commission to proceed with all deliberate speed to protect the consumers, workers, and investors of this state who have been gravely affected by WorldCom's Enron-like fraudulent schemes by moving to decertify or suspend WorldCom as a telecommunications provider. We believe this action is fully justified, but if the Commission does not take this action, at the very least, WorldCom and its affiliates operating in this state should be: (1) subject to substantial fines imposed by this Commission commensurate with the unlawful conduct committed by WorldCom; (2) barred from bidding on and being awarded new state funded contracts; and (3) subject to strict and enforceable conditions designed to protect consumers, workers, and investors by ensuring that such wrongdoing by WorldCom ceases once and for all. WorldCom's apparent defense that it is a big and important company, that the other guy did it and he is gone and that it is sorry, is no defense at all and it is no justification for this Commission not taking extraordinary action to deal with this extraordinary situation.

Respectfully submitted,



James E. Smith
Vice President

JES/bc

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BellSouth African American
Employee Networking
Organization

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JUL 26 2002

SARA KYLE, COMMISSIONER
TN PUBLIC SERVICE COMM.

July 24, 2002

TO: Ms. Sara Kyle, Chairman
Tennessee Regulatory Authority

FROM: Isaiah L. Dalton, President
BellSouth African American Employee Networking Organization -Tennessee
3014 Sulphur Springs Rd, Murfreesboro, TN 37129

SUBJECT: Support for BellSouth Long Distance (271 Filing)

The African American Employee Networking Organization fully endorses BellSouth's 271 Filing to become an interLATA(Local Access Transport Area) Long Distance Service provider in Tennessee. We are aware that the same BellSouth Operating Systems that successfully support competitive Long Distance Service in Georgia and Louisiana will also be used in Tennessee. Our support for BellSouth's application is extended for the following reasons:

1. Lower Costs

Studies have shown that long distance charges are reduced when incumbent local exchange providers like BellSouth are allowed to enter the Long Distance market,

2. A Single Source for Telephone Service

The complexity of dealing with multiple telephone service providers has been confusing and burdensome to many in the African American Community – especially the elderly, the disabled, and the illiterate,

3. Quality of BellSouth's Service

African Americans are pleased with the level of service and customer response provided by BellSouth. The J D Power Awards received by BellSouth attest to the general Customer Satisfaction with BellSouth's service. Additionally, a report by Millward Brown for the year 2000-2001 indicated that African Americans rated BellSouth higher than its competitors.

4. BellSouth Employs African Americans and Supports Community Improvement

BellSouth is one of the leading employers of African Americans in Tennessee with positions that pay "Livable Wages." Fortune Magazine ranked BellSouth as the

10th best place in America for African Americans to work.

As an organization within BellSouth, we observe first hand the generosity and civic-mindedness prevalent in this Company. BellSouth has been recognized repeatedly for its support of the United Way, Robertson Association, disaster relief, etc.

BellSouth's support in the African American Community is equally impressive. Over 48 agencies that provide service to the African American Community receive support from BellSouth. Nationally, these include the National Civil Rights Museum in Memphis, the Martin Luther King National Memorial and website in Washington, DC, and the Southern Education Foundation (which focuses on minority education in the Southeast), the United Negro College Fund, the National Urban League, and the King Center. Locally, BellSouth also supports MEDWeek, the Vanderbilt University Black Cultural Center, the Black Entrepreneurs Conference, and the Black MBA Association Conference.

As African Americans, we would like to see our Long Distance dollars go to a company that is supportive of our community. BellSouth is such a company.

The BellSouth African American Employee Networking Organization whole-heartedly endorses BellSouth's application for entry into the interLATA Long Distance market and urges the Tennessee Regulatory Authority to extend its approval of this effort.

If there are questions, please contact me at 615-214-5227.

A handwritten signature in cursive script, reading "Isaiah L. Dalton".

Isaiah L. Dalton